

Message Text

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PASS TREASURY, COMMERCE

E.O. 11652: GDS

TAGS: EFIN, AR

SUBJECT: ARGENTINA'S EXTERNAL DEBT SITUATION BECOMES CRITICAL

(A) BUENOS AIRES 94

(B) STATE 160420

(C) STATE 165816

SUMMARY: EVENTS HAVE MOVED RAPIDLY AND ARGENTINA'S EXTERNAL DEBT SITUATION NOW APPEARS CRITICAL. CENTRAL BANK WILL HAVE DIFFICULTY PAYING LARGE VOLUME FOREIGN OBLIGATIONS DUE IMMEDIATE FUTURE. US BANKS HERE PESSIMISTIC ABOUT ECONOMIC/FINANCIAL SITUATION. IN CURRENT CHAOTIC CONDITIONS, THEY BELIEVE ARGENTINE PROSPECTS FOR OBTAINING SUBSTANTIAL NEW EXTERNAL CREDITS ARE POOR. UNLESS ECONOMY REVIVES SOON, BELIEVE ARGENTINA HEADED TOWARD MAJOR EXTERNAL DEBT RESCHEDULING AND/OR IMF STANDBY. END SUMMARY

1. CURRENT SITUATION: DATA SCARCE, AND GOA NOW IN PECULIAR SITUATION EMPHASIZING WORST ABOUT ECONOMIC/FINANCIAL CONDITIONS FOR DOMESTIC POLITICAL CONFIDENTIAL

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PURPOSES. NEVERTHELESS, EVENTS HAVE MOVED RAPIDLY,

AND OUR PRELIMINARY ASSESSMENT IS THAT ARGENTINA STANDS ON BRINK OF MAJOR EXTERNAL DEBT CRISIS-- PERHAPS IT HAS ALREADY GONE OVER EDGE. ACCORDING OUR ESTIMATES, ARGENTINA WILL HAVE VERY HEAVY DEBT PAYMENTS TO MAKE OVER NEXT SEVERAL MONTHS AS RESULT: A) SUBSTANTIAL ROLL OVER EARLIER DEBT; AND B) SIGNIFICANT PAYMENT OBLIGATIONS ARISING FROM IMPORT SURGE DURING FIRST QUARTER 1975. WE QUOTEESTIMATE THAT PRINCIPAL REPAYMENTS DURING REMAINDER OF YEAR WILL BE AROUND ONE BILLION DOLLARS--POSSIBLY EVEN MORE.

2. CENTRAL BANK STRATEGY--UNFORTUNATELY, CENTRAL BANK NOW IN WEAK POSITION TO MAKE PAYMENTS. CURRENT ACCOUNT LIKELY REMAIN IN SUBSTANTIAL DEFICIT FOR YEAR, AND GROSS RESERVES DROPPED TO AROUND \$700 MILLION BY END MAY (LESS THAN \$200 FREE). TO TRY AND MAKE ENDS MEET, GOA STRATEGY IS TO REDUCE CAPITAL OUTFLOW TO MINIMUM, ROLL OVER ALL DEBT POSSIBLE, AND SEEK NEW EXTERNAL CREDITS. REGARDING LATTER, CENTRAL BANK HAS ATTRACTED SOME SHORT-TERM CAPITAL VIA "SWAP TRANSACTIONS". HOWEVER, LONGER TERM COMMERCIAL BANK CREDITS HAVE BEEN DIFFICULT TO OBTAIN DESPITE SIGNIFICANT GOA PROPAGANDA EFFORTS TO IMPROVE ITS CREDIT IMAGE ABROAD. IF GOA NOT ABLE REFINANCE FORTHCOMING OBLIGATIONS WITH NEW CREDITS, IT WILL PROBABLY USE GOLD RESERVES TO SEEK NECESSARY FOREIGN EXCHANGE--EITHER SWAPPING ITS GOLD FOR FOREIGN EXCHANGE OR USING IT AS COLLATERAL FOR NEW LOAN. AT CURRENT INTERNATIONAL PRICE, ARGENTINA'S GOLD STOCK WOULD BE WORTH ABOUT \$600 MILLION. THERE IS ALSO SPECULATION HERE ABOUT POSSIBLE ARGENTINE USE OF IMF OIL FACILITY AND EVEN ITS FIRST TRANCHE IF NECESSARY.

3. US BANK ATTITUDES--BASED INFORMAL SOUNDINGS, US BANKS HERE VIEW CURRENT ECONOMIC/FINANCIAL SITUATION AS CRITICAL. THEY PESSIMISTIC RE ARGENTINE'S PROSPECTS OBTAINING NEW EXTERNAL CREDITS WHILE DOMESTIC ECONOMIC/POLITICAL SITUATION SO CHAOTIC. FNCB REP STRESSED LETTER INTENT ON "BEST EFFORTS" BASIS. HE CONFIDENTIAL

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HOPED GOA WOULD NOT SEEK IMMEDIATE IMPLEMENTATION OF FINANCIAL PACKAGE BECAUSE RESULT WOULD BE ALMOST CERTAIN FAILURE. CHEMICAL BANK REP SPOKE IN SIMILAR VEIN. HE EMPHASIZED CHEMICAL BANK ANXIOUS TO MOVE FORWARD ON GRAIN PRE-EXPORT FINANCING PROGRAM, BUT CURRENT DOMESTIC SITUATION IN ARGENTINA TOO CHAOTIC TO "SELL" PACKAGE ON INTERNATIONAL FINANCIAL MARKETS. CHASE REP SAID CENTRAL BANK PRESIDENT CAIROLI RECENTLY REQUESTED

CHASE TO HEAD NEW BANK SYNDICATE FOR ARGENTINA
AND SIGN LETTER OF INTENT SIMILAR FNCB. HE SAID
CHASE NOT WILLING ASSUME RESPONSIBILITY.

4. COMMENT: AFTER DRAFTING THIS CABLE, PRESIDENT
OF CENTRAL BANK RICARDO CAIROLI PRESENTED HIS RESIGNATION.
BELIEVE HIS RESIGNATION LINKED TO BALANCE OF
PAYMENTS AND EXTERNAL DEBT PROBLEM, AND QUITE POSSIBLY
TO FACT CENTRAL BANK NOT ABLE OBTAIN NECESSARY NEW
EXTERNAL CREDITS IN CURRENT POLITICAL-ECONOMIC CRISIS.
WE WILL FURTHER ANALYZE BALANCE OF PAYMENTS AND EXTERNAL
DEBT SITUATION PRIOR AUGUST 15 AS REQUESTED REFTEL C.
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